Vermont State Retirement Systems
Section E—Economically Targeted Investments

Approved August 15, 2006

VPIC will consider investment opportunities that support economic and community benefits within the State of Vermont, provided that such economically targeted investments (ETIs) are consistent with VPIC obligations to the members and beneficiaries of its participating retirement systems and with the standard of care established by the prudent investor rule under chapter 147 of Title 9 of Vermont law.

Economically targeted investments (ETIs) are investments in a variety of asset classes that generate rates of return commensurate with the overall risk, liquidity, security and structure of comparable non-targeted investments while providing collateral economic benefits (benefits that enhance quality of life and promote economic development and activity) to the targeted area (Vermont). Accordingly, in cases where investment characteristics, including returns, risk, liquidity, and compliance with allocation policy, are appropriate, VPIC will consider, through an annual request for proposals, those ETI investments that have a substantial, direct and measurable benefit to economic or community development within the State of Vermont.

Such Economically Targeted Investments ("ETIs") must meet the following criteria:

1. Investments must target risk-adjusted, market-rate returns and provide net returns equivalent to or higher than other available investments, at commensurate levels of risk. Economic or social benefits will not justify a lower return on any VPIC investment. When evaluating ETI opportunities, VPIC will discount projected returns for any subsidies, deferral of income, higher risk levels, and other concessions to reach a real rate of return for comparison with other ETI and non-ETI investment alternatives. Similarly, ETI benefits will not justify higher investment risk. However, where appropriate, the VPIC will consider third party guarantees, recourse, hedging, and other acceptable and customary risk management vehicles to reduce or eliminate risk in ETI investments.

2. Investments must not exceed a reasonable weighting in the portfolio, including tracking the degree of exposure to the Vermont economy and ensuring appropriate geographic diversification. Investments should maintain the overall portfolio's compliance with its asset allocation strategy. ETI benefits will not justify deviation from the Asset Allocation Plan adopted by the VPIC.

3. Investments should be placed with an experienced and capable manager through an objective and transparent process. Investments should be managed by qualified discretionary investment managers. VPIC will not make any direct investments.

4. Investments should target a "capital gap" where there are likely to be underserved markets.

5. Investments must be tracked (both investment performance and collateral benefits) and managed with the same rigor and discipline imposed on other investments. Investments should be reviewed and monitored by VPIC staff and consultants without inappropriate expenditure of time and resources. The performance of each investment shall be measured against an appropriate benchmark, to be identified initially in conjunction with the making of the investment and to be modified from time to time to provide a suitable measurement of performance relative to investments with similar levels of risk, liquidity, security and structure. The collateral economic benefits shall be quantified to the extent possible and measured alongside the anticipated goal of the investment.

Proposed investments will be evaluated according to the following factors:

1. The clarity of the proposed investment or program and its parameters and goals;
2. The extent to which the proposer demonstrates that the proposed investment or program will produce the anticipated risk -adjusted return and collateral benefits;
3. The quality, reputation and experience of the investment managers and their ability to implement a proposed program or investment;
4. The quality of controls and reporting systems (including audited financials, risk management systems and reports to investors);
5. The fit within the Plan VPIC portfolio; and
6. The appropriateness of terms and conditions.